

## 27th Legislative District

2002



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Institutions; Ways & Means

# State Budget Guide





# DebbieRegala State Senator

27th Legislative District

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*Dear Neighbor:*

*Best wishes to you as we start the new year. I hope you are rested from the holidays and looking forward to the year ahead.*

*As you know, the upcoming legislative session promises to be a tremendous challenge. Our state budget has been hit with a projected \$1.25-billion shortfall. It will be extremely tough to make this adjustment.*

*How did we get here? Simply put, our revenue has gone down sharply, yet our needs continue to go up.*

*After we passed the state's two-year spending plan last year, revenue projections dropped as our economy began to feel the impact of the recession. The devastating Sept. 11 attacks only worsened matters, leading to massive layoffs at Boeing. Another vital source of state revenue was curtailed when passage of Initiative 747 sharply reduced property-tax increases. And we are face-to-face with the effects of other voter-approved measures that cut revenue or restricted state spending.*

*At the same time, the needs of our state continue to grow. During the next two years, our public schools will have to make room for nearly 12,000 more students than we anticipated last session. Caseloads at the Department of Social and Health Services, the state's primary social-service agency, and the Department of Corrections are also up. It's no secret that health-care costs continue to skyrocket. And we are experiencing one of the highest unemployment rates in the country.*

*Altogether, we are grappling with at least \$350 million in unanticipated costs and over \$900 million in lost revenue.*

*As a member of the Senate Ways & Means Committee, I will be closely involved in crafting solutions to our budget crisis. Short of raising taxes, our only option is to find ways to reduce spending. I will be working hard to continue meeting the needs of our state while protecting our most vulnerable citizens – children, the poor, the sick, the disabled and the elderly. We must all pull together and protect the people in our communities who cannot protect themselves.*



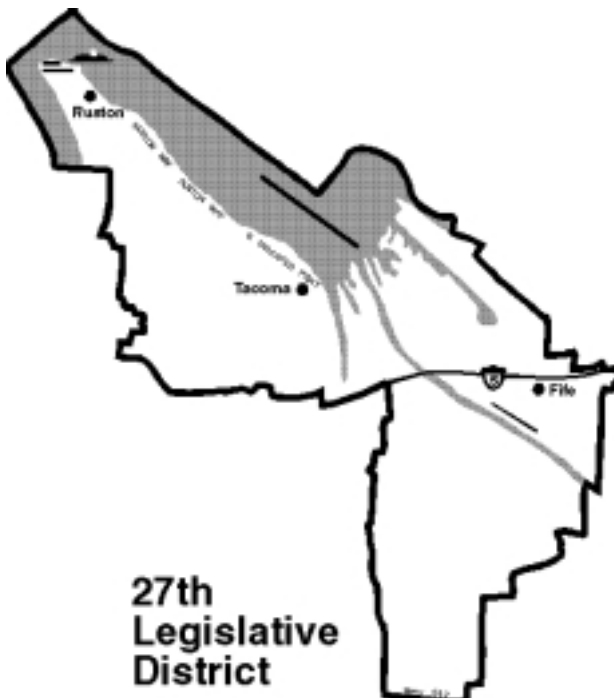
To help make sense of our budget-writing process, I am sending you this shortened version of the "Citizen's Guide to the Washington State Budget." Prepared by the Senate Ways & Means Committee, it is designed to take the mystery out of what is often a very complicated exercise. I hope you find it useful. If you would like the full document, please see instructions on how to get additional copies in the guide's introduction.

Please don't hesitate to contact me if you need more information or help, with this or any other issue or concern. It is a continuing honor to serve you in the Senate.

Respectfully,

*Debbie Regala*

Debbie Regala  
State Senator  
27th Legislative District





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## **Introduction**

*A Citizen's Guide to the Washington State Budget* is offered as a resource for citizens, members of the Senate, their staff, and other interested persons to provide a clear and simple overview of the state budget and state revenues. It describes the three basic state budgets and their interrelationships, the sources of revenue that support those budgets and how the money is spent.

*A Citizen's Guide to the Washington State Budget* was prepared by staff of the Senate Ways and Means Committee (within Senate Committee Services) and the Legislative Evaluation and Accountability Program (LEAP) Committee. Questions regarding the guide or requests for additional copies should be addressed to:

### **Senate Ways and Means Committee**

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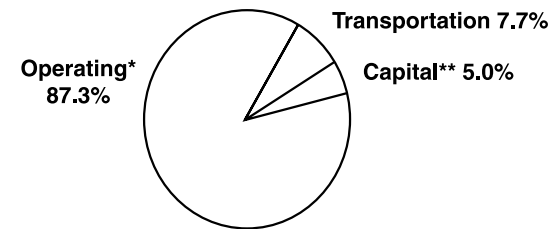
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Web site: [www.leg.wa.gov/senate/scs/wm/default.html](http://www.leg.wa.gov/senate/scs/wm/default.html)



# How Big Is The State Budget?

In the 2001-03 biennium, the state of Washington will spend a total of \$49.7 billion. That’s about \$68 million per day (on average) during the two-year spending period. This \$49.7 billion includes amounts from three different budgets, which are plans of how the state will spend the money. The three state budgets are described in the following:



2001-03 State Budgets  
(Dollars in Billions)

Operating*	\$43.4
Transportation	3.8
Capital**	2.5
<b>Total</b>	<b>\$49.7</b>

\* Includes appropriations in other legislation (approximately \$25.1 million)

\*\* Excludes Capital Re-appropriations (approximately \$1.6 billion)

Sources: Winsum and Buildsum budget development systems.

- The budget that pays for the day-to-day operation of state government (including federal funds and dedicated funds) is called the **Operating Budget (\$43.4 billion)**.
- The budget that pays for transportation activities such as designing and maintaining roads and mass transit is called the **Transportation Budget (\$3.8 billion)**. This budget includes amounts for both transportation operating activities (\$1.75 billion) and transportation capital activities (\$2.06 billion).
- The budget to acquire and maintain state buildings, public schools, public lands, parks and other assets is called the **Capital Budget (\$2.5 billion)**.

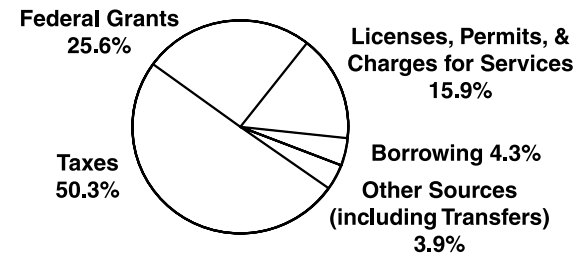
You may also have heard about the state “general fund” budget. This refers to the spending plan for the largest fund of the state; it represents more than half of the \$43.4 billion operating budget. A discussion of the state general fund budget begins on page 6.



# Where Does This Money Come From?

To pay for its activities in the 2001-03 biennium, the state will tax citizens and businesses \$25.1 billion, receive federal and other grants of \$12.8 billion, collect fees, and assess charges for licenses and permits of \$7.9 billion, and borrow \$2.1 billion; other sources (including transfers) account for \$1.9 billion. The relative size of each of these sources is shown in the following chart.

Most of the money the state uses to pay for services comes from state taxes. Washington’s major tax sources include the sales tax, property tax and a rather unique tax called the Business and Occupation (B&O) tax, which is a tax on gross receipts rather than on profit or income. Washington is one of seven states that does not levy a personal income tax.



**2001-03 Sources of Revenue**  
**(Dollars in Billions)**

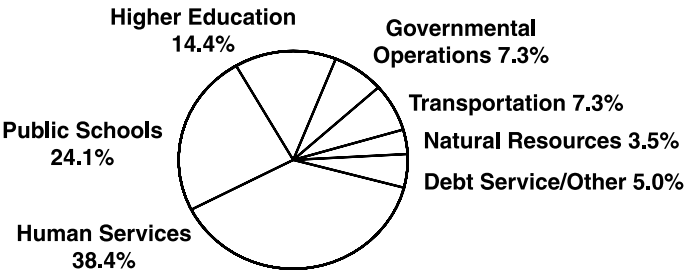
Taxes .....	\$25.1
Federal & Other Grants .....	12.8
Licenses, Permits, & Charges for Services ..	7.9
Borrowing .....	2.1
Other Sources .....	1.9
<hr/>	
<b>Total. ....</b>	<b>\$49.9</b>

**Note:** Numbers do not add due to rounding.  
**Source:** OFM Revsum database for 2001-03.



# How Are These Funds Spent?

As the following chart shows, during the next two years, the state will spend a total of \$49.7 billion, which can be divided into seven major areas.



**2001-03 All Budgeted Expenditures\***  
(Dollars in Billions)

Human Services. . . . .	\$19.1
Public Schools . . . . .	12.0
Higher Education . . . . .	7.2
Governmental Operations . . . . .	3.6
Transportation . . . . .	3.6
Natural Resources . . . . .	1.7
Debt Service/Other. . . . .	2.5
<hr/>	
<b>Total* . . . . .</b>	<b>\$49.7</b>

\* Excludes Capital Re-appropriations (approximately \$1.6 billion).  
Sources: Winsum and Buildsum budget development systems.

**Human Services**, such as mental health and other institutions, public assistance, health care, and prisons, accounts for 38.4% of total expenditures. Most human services programs are partnerships between the state and the federal government with the federal government providing about half of the money and the state providing the rest. The state provides human services to one out of every five citizens, including services to over half a million children residing in Washington.

**Public Schools**, which includes funding for kindergarten through 12th grade, comprises the next largest category of total expenditures, although it represents the largest component of the state general fund budget (see page 8).



**Higher Education**, representing 14.4% of total budget spending, includes support for the state's four-year schools and community and technical colleges.

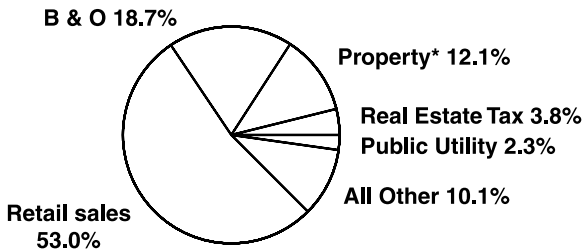
**Transportation** services and construction represent 7.3% of total budget spending including highways, state ferries, and the State Patrol, to name a few. The operating activities in Transportation account for over \$1.4 billion of total budget spending (just under 3%), and Transportation capital activities account for approximately \$2.1 billion of all spending (just over 4%).

Other total spending categories include Natural Resources activities for environmental protection, management and recreation, the administrative, judicial and legislative agencies in Governmental Operations, and other expenditures such as the payment of debt service.



# What Is The State General Fund?

The state general fund is the largest single fund within the total state budget. It is the principal state fund supporting the operation of state government. All major state tax revenues are deposited into this fund.



**2001-03 Sources of  
State General Fund Revenue  
(Dollars in Billions)**

Retail Sales .....	\$11.2
Business & Occupation .....	4.0
Property* .....	2.6
Real Estate.....	0.8
Public Utility .....	0.5
All Other.....	2.1
<b>Total.....</b>	<b>\$21.2</b>

\* Excludes the amount transferred to the Student Achievement Account per Initiative 728.

Source: Economic and Revenue Forecast, November 2001

For the 2001-03 budget period, the state general fund will receive \$21.2 billion in revenues. More than half of that amount is from the state retail sales tax. The second largest tax is the B&O, which accounts for almost one fifth of the total, and the third largest tax is the state property tax, which accounts for about 12% of the total.

The state sales tax, the B&O tax, and the state property tax account for more than 80% of all state general fund revenues. In addition, the general fund relies on a public utility tax, insurance premium taxes, real estate excise taxes and a number of other smaller taxes.



Contrary to popular belief, the state lottery does not “pay” for all of K-12 education. Currently, the lottery brings in about \$226 million per biennium; Initiative 728 requires the transfer of these funds to the Student Achievement Account and the Education Construction Account. The total state budget for public schools is about \$12 billion. That means the state lottery only supports about 2% of the K-12 education budget.

The major difference between the state general fund revenues (\$21.2 billion) and the total of all budgeted funds revenues (\$49.9 billion) is the dedication of revenue sources to specific uses. Most of the difference can be attributed to four areas:

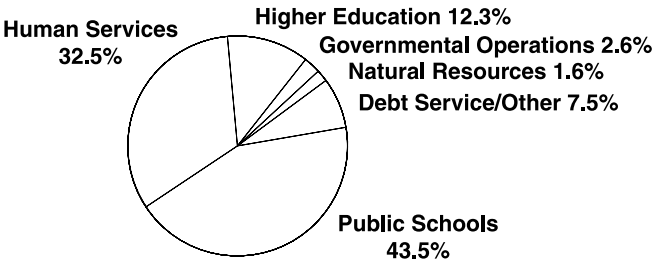
- Federal funds for specific federal programs (\$10.6 billion)
- Higher Education specific funds (\$4.1 billion)
- Bonds for capital purposes (\$2.1 billion)
- Gas taxes for transportation purposes (nearly \$1.5 billion)

These four sources account for two-thirds of the difference between revenues available for all state government budgets and the state general fund budget.



# How Is State General Fund Money Spent?

Because of the nature of its tax sources, the state general fund receives the most attention during the budget building process. As the following chart shows, during the next two years, the state will spend about \$22.8 billion (or about \$30 million per day on average) from the state general fund, which has been divided into six major areas.



**2001-03 General Fund-State Expenditures**  
(Dollars in Billions)

Public Schools . . . . .	\$9.9
Human Services. . . . .	7.4
Higher Education . . . . .	2.8
Governmental Operations . . . . .	0.6
Natural Resources . . . . .	0.4
Debt Service/Other. . . . .	1.7
<hr/>	
<b>Total. . . . .</b>	<b>\$22.8</b>

The largest single state general fund program is Public Schools which includes state support for K-12 education. Public Schools account for 24.1% of all budgeted expenditures but that share rises to 43.5% examining only the state general fund. By the end of the current biennium, the state will provide public education funding for 946,000 children.

**Human Services** state general fund spending consists primarily of the operating budget for the Department of Social and Health Services (DSHS), the states umbrella organization that provides medical, social, and income assistance to citizens in need. It also includes spending for the Department of Corrections and the Department of Health, among others.



**Higher education** spending includes funding for six public universities, 34 community colleges and technical schools, and financial aid to over 282,000 students a year attending both state supported and private colleges. Expenditures for Higher Education represent 14.4% of all budgeted funds and 12.3% of the state general fund. In addition to money from the general fund, Higher Education receives more than \$4.1 billion of dedicated revenues, principally grants and contracts, and tuition and fees.

Other general fund spending categories include Natural Resources, Governmental Operations, and other expenditures such as the payment of debt service.



## Why Does The Budget Go Up Year After Year?

The budget goes up each year primarily because there are more citizens to serve, those services cost more, and because citizens may request new or different services. Public education may be the easiest example of these trends.

- Article IX, Sec. 1 of the Washington State Constitution declares “It is the paramount duty of the state to make ample provision for the education of all children residing within its borders . . .” The cost of meeting this constitutional requirement takes nearly half of the state general fund budget. In 1990 there were about 800,000 children in Washington State K-12 public schools. By the end of this biennium, enrollment will reach 946,000. The education of these additional children costs hundreds of millions of dollars. Over the same period, the population of the state as a whole is expected to increase over 1.2 million people, so there will be more taxpayers to shoulder these costs.
- Teaching supplies, materials, equipment and energy all will cost more in 2003 than they did in 1990, so the overall cost of educating each student will be more. Similarly, the personal income of the taxpayers on average will be greater.
- Finally, in 1993 the Legislature passed new requirements for public education. Referred to as “education reform”, these requirements have and will continue to change the cost of education for each child. This too will cause the budget to go up.

## How is the Budget Created?

Through the budget process, the Legislature and the Governor decide how much money to raise and spend. State agencies, the Governor, the Legislature, citizens and interest groups are all involved in this process. Washington State operates on a two-year (biennial) basis, beginning on July 1st of each odd-numbered year. For example, the current budget is for the period July 1, 2001 through June 30, 2003.

**Agency Requests** - In late summer and early fall of each even-numbered year, state agencies submit budget requests to the Office of Financial Management (OFM). The Governor reviews the requests and makes the final decisions for his or her budget proposal.



**The Governor's Budget** - By law, the Governor, as the state's chief executive officer, must propose a biennial budget in December of even-numbered years, the month before the Legislature convenes in regular session. The Governor's budget is his or her proposed spending and taxation plan for the biennium.

**The Legislative Budget Process** - After receiving the Governor's budget proposal, the Legislature reviews it and formulates its own budgets during the legislative session which begins in January. The chairs of the Senate Ways and Means and House Appropriations Committees work with their respective members and staffs to analyze the Governor's budget and develop recommendations and alternative proposals. The transportation portions of the budget are developed by separate committees in the House and Senate. Following tradition, the initiation of the budget alternates between chambers each biennium.

After each chamber has passed its version of the budget, the differences between the two must be reconciled in the budget conference process. Six fiscal leaders from both chambers and both political parties meet as a committee to prepare one legislative budget that is submitted to the full Legislature for final passage and then ultimately delivered to the Governor for his or her signature.

The Governor may veto all or part of the budget, thereby eliminating funding for certain activities; however, the Governor cannot add money for an activity for which the Legislature provided no funding. Only after the Legislature passes a budget and the Governor signs it has the state created a real budget.

**Supplemental Budgets** - In even numbered years, the Legislature will consider changes to the biennial budget in what is called a Supplemental Budget. Generally, such changes represent mid-course corrections to the two-year spending plan to account for changes in school enrollments, prison populations, public assistance caseloads, or significant changes in the economy of the state.



## Please Stay in Touch!

Your comments and concerns are always appreciated. Please take a moment to tell me what's on your mind.

Dear Debbie,

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Name

Address

Phone

E-mail (optional)



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